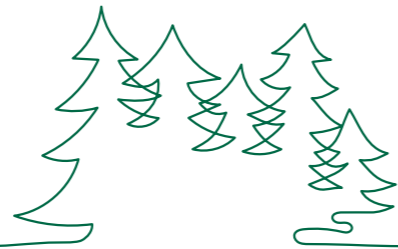


Special Feature Harnessing the Value of Forests and Trees



Accelerate the cyclical forest business



In addition to absorbing CO₂, forests have a variety of public benefits, including biodiversity conservation, water source recharge, soil conservation, and prevention of sediment disasters. In order to ensure perpetual use of these timber resources while maintaining these forests' public benefits, the Group is promoting sustainable forest management in Japan and overseas under proper management by firmly zoning conservation forests and working forests.

2030 targets Forestry fund assets under management
100.0 billion yen

Owned/managed forest land area target
277,000 ha ▶ **500,000 ha**
As of December 31, 2021 (formulation of our long-term vision)

Investment plan Forestry fund related investments (~2024)
12.0 billion yen

To Accelerate the Cyclical Forest Business Formation of Forestry Funds

Our long-term vision includes accelerating the cyclical forest business as a pillar of the forestry area. By utilizing expertise from NeXT FOREST and forestry fund mechanisms, we plan to expand the global land area of owned and managed forests to 500,000 hectares by 2030. This increases CO₂ absorption and contributes to carbon offsets for other companies and society, making sustainable business a reality. The target size of assets to be included in forestry funds is 100.0 billion yen by 2030, with related investments of 12.0 billion yen by 2024.

Launch of Mangrove Conservation Project in Indonesia

In December 2022, Sumitomo Forestry made PT BINA OVIVIPARI SEMESTA a wholly owned subsidiary. This company owns and manages 9,738 hectares of mangrove forest in West Kalimantan, Indonesia. Proper management and conservation of mangroves, themselves an ecosystem with great value worldwide, as conservation forests will lead to a reduction in CO₂ emissions. We aim to create blue carbon*¹ credits through mangrove conservation projects and engage in other ecosystem conservation projects over



A mangrove forest

a wide area, including peatlands and rainforests.

*1 As coined by the United Nations Environment Programme (UNEP) in 2009, carbon embedded in the marine ecosystems of seagrass beds, seaweed beds, wetlands and tidal flats, and mangrove forests. The blue carbon of the acquired mangroves is estimated to be about 66 million t-CO₂.

Established NeXT FOREST, a Joint Venture with IHI Corporation.

In February 2023, we established NeXT FOREST Corporation, a joint venture with IHI Corporation, launching a consulting service for the proper management of tropical peatlands by combining our established tropical peatland*² management technology with IHI's satellite and drone-based observation technology. We will work to create high-quality credits by accurately measuring the amount of CO₂ absorption and carbon storage in forests and soil, and by properly assessing the value of natural capital.

*2 Land consisting of peat deposits which are formed plant debris not decomposed in water. When the groundwater level drops and peatland dry out, the peatland can be lost and emit large amount of CO₂ by forest fires or peat decomposition. As such, groundwater level management is critical.

Diagram of sustainable tropical peatland for promotion by NeXT FOREST

Balancing economic benefit and the social environment by dividing areas into working forests, conservation forests, and local resident areas



The Creation of Forestry Funds

In October 2022, we established the forest asset management company Eastwood Forests, LLC in the United States. The company will manage forest assets through the forestry funds it sets up, returning profits from timber sales and other activities and carbon credits generated by the forests to investors, thereby contributing to carbon offsetting for society as a whole. The Group is identifying the needs of mainly domestic companies and sourcing forests in North America, Asia, and Oceania, and has formed its inaugural Eastwood Climate Smart Forestry Fund I, launched in 2023 through the new company.

*3 This content is not intended to solicit corporations to participate in this fund.



Promote "wood change"



In the area of wood, we are promoting the substitution of wood for other materials ("wood change") while appealing to society for the various values that wood possesses, such as its carbon storage function. Through the establishment of timber industrial complexes, we are also working to maximize wood's added value and encourage the use of domestic timber.

2030 targets Timber industrial complexes Domestic timber usage volume
1 million m³/year

Investment plan Timber industrial complexes investment amount (~2024)
20.0 billion yen

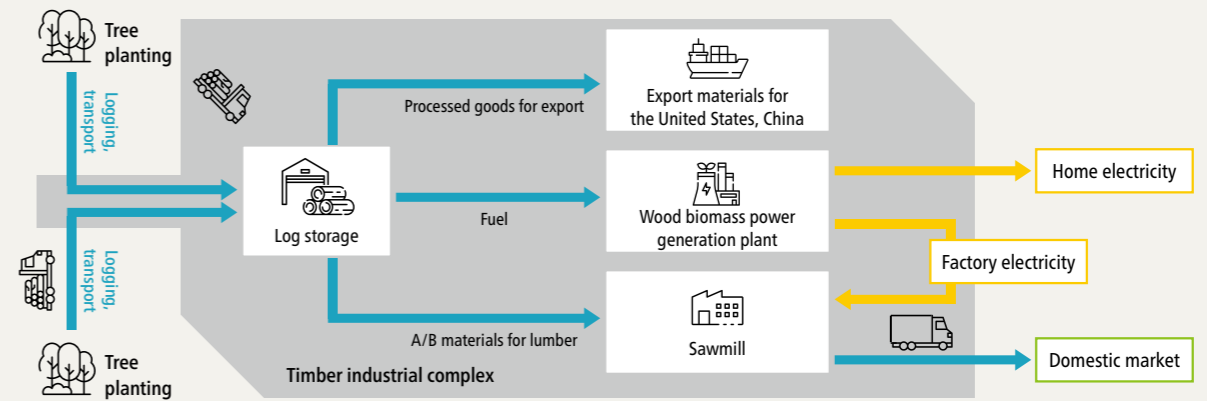
The Role of the Timber Industrial Complex

Japanese housing (for the wooden post-and-beam construction method) relies on imported timber for 90% of its horizontal timbers and 50% of its post timber. In order to diversify and mitigate the risk of relying on imports for the majority of structural members and raw materials, and to realize a stable supply chain, timber industrial complexes are important for building a supply system for domestically produced structural members.

The timber industrial complexes help realize long-term carbon storage through value-enhancing wood utilization, from use in timber, to energy, to chemicals. Specifically, we are working to launch timber processing

business, among others, to maximize the value of low-grade timber and offcuts, as well as cascade use of all logs from sustainable forests. By encouraging substitution for wood-derived materials in various fields such as detached housing, non-residential construction, and bio-chemicals, we aim to build a circular business, improve the value of forests, and expand the use of domestic timber. By collaborating with business partners in each area and complementing each other's functions, we will realize the wood cycle and contribute to improving Japan's wood self-sufficiency rate and to local communities.

Timber industrial complex overview



Toward the Establishment of Timber Industrial Complexes



Image from a PR video about global expansion by the Shibushi Port, published to Kagoshima Prefecture's official YouTube channel

In February 2022, Sumitomo Forestry signed a letter of agreement with Shibushi City, Kagoshima Prefecture, establishing the location for construction of a new plant. Currently, we are developing a business plan and selecting equipment with the aim of building a plant that can process exported logs and produce high-strength structural members that can be used not only for residential buildings but also for non-residential buildings. We will continue to consider projects in multiple locations throughout Japan, focusing on areas with abundant wood resources.